



**TESTIMONY BEFORE THE SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT**

**COMMITTEE ON AGRICULTURE**

**U.S. HOUSE OF REPRESENTATIVES**

# CROP INSURANCE PRODUCTS FOR SPECIALITY CROPS

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**submitted by**

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Chairman Moran, Ranking Member Peterson, and Members of this Subcommittee, we are grateful for the opportunity to present testimony today on the U.S. Department of Agriculture's crop insurance program as it relates to the floriculture and nursery industry.

The Society of American Florists (SAF) is the national trade association representing the entire floriculture industry, a nearly $19 billion (at retail) component of the U.S. economy. Floriculture is more than cut flowers and cut foliage -- it also includes foliage plants, potted flowering plants, bedding plants, perennials, annuals and bulbs, and seeds and other propagative material. SAF is a vertically integrated organization, representing all segments of the industry: growers, wholesalers, retailers, importers, manufacturers, suppliers, educators, and related organizations. Our membership includes some 13,000 small businesses, located in communities throughout the United States.

The American Nursery & Landscape Association (ANLA) is the national trade association for the nursery and landscape industry -- producers, retailers and landscapers focusing primarily on trees, shrubs and other woody ornamentals, perennial plants, and bedding plants. ANLA represents 2,500 production nurseries, landscape firms, retail garden centers and horticultural distribution centers, and the 16,000 additional family farm and small business members of the state and regional nursery and landscape association. ANLA's grower members are estimated to produce about 75 percent of the nursery crops moving in domestic commerce in the U.S. that are destined for landscape use.

SAF and ANLA are the national trade associations representing the floral and nursery industry, sometimes collectively known as "environmental horticulture." Because of the very closely related interests of our members, the two organizations work closely together on many issues. My testimony today recognizes and incorporates and endorses the testimony presented by ANLA at the July 10 hearing held by this Subcommittee.

According to the USDA's National Agricultural Statistics Service (NASS), **the nursery and greenhouse industry remains the fastest growing agricultural sector in cash receipts**. The 1997 Census of Agriculture shows that nursery, greenhouse and floriculture crop sales totaled $10.9 billion in 1997, up from $7.6 billion in 1992. This represents a *43 percent increase* in sales over the previous 1992 Census. More recent USDA analyses show that the industry is now valued at over $13 billion at farmgate. Together these crops make up 11 percent of total U.S. farmgate receipts, up from 10 percent. Some 33,935 farms produced nursery plants as their principal crop; floriculture farms numbered 21,824.

**In crop value, nursery and greenhouse crops have surpassed wheat, cotton, and tobacco and are now the third largest plant crop** – behind only corn and soybeans. Nursery and greenhouse crop production now ranks among the top five agricultural commodities in 24 states, and among the top 10 in 40 states. Growers produce thousands of varieties of cultivated nursery, bedding, foliage and potted flowering plants in a wide array of different forms and sizes on 1,305,052 acres of open ground and 1,799 million square feet under the protective cover of permanent or temporary greenhouses.

Yet despite the strong (and growing) economic importance of the floriculture and nursery industry as a part of U.S. agriculture, our growers are still without all of the good risk management tools which are available to other segments of U.S. agriculture. USDA's Risk Management Agency (RMA) has been working, with some success, for several years to address the risk management needs of floral and nursery growers. In the 1980's, RMA issued its nursery stock policy, which was

revised again in 1999. Although the policy and coverage provided are by no means ideal, it has been an important safeguard for some growers affected by disasters in recent years. However, the policy needs many improvements in order to meet the needs of growers in the industry.

In January of 2001, RMA identified development of a risk management program for cut flowers and cut foliage as one of its highest priority projects. A contractor (National Crop Insurance Services, "NCIS") was awarded the initial study contract to gather information from various sources, including academics, private insurance specialists, growers, and other sources. A series of regional "listening sessions" was held in various parts of the country. SAF, along with one of the nation's primary private insurers of horticultural crops, Hortica Insurance, cooperated with the contractor. Hortica, in particular, as an insurer also writing policies under the nursery crop program and an expert in the diverse growing practices of the industry, was closely involved in the study. It is our understanding that a report with recommendations was completed in May of 2002 and presented to the Risk Management Agency. However, since then, no action has been forthcoming, and we remain uncertain as to the outcome of this effort.

The floral and nursery industry is very diverse -- literally hundreds of different kinds of flowers and plants are grown, in various climates, in glasshouses, in poly-covered greenhouses, in "shade" houses, and in open fields, in containers of various sizes, and in climates and "hardiness" zones ranging from Miami to Seattle and everything in between. A "one size fits all" policy would be very difficult to write -- and administer -- in the traditional multi-peril crop insurance policy mold. Yet RMA has begun to break out of that mold in recent years, in designing more diverse policies to meet diverse grower needs in other segments of agriculture. We are hopeful that, similarly, a policy or policies can be designed which will meet the very important risk management needs of floral and nursery growers. A need exists for workable crop insurance in the floral and nursery industry, and we will be happy to work with RMA toward meeting that need.

The remainder of this testimony will focus separately on the existing nursery crop policy and the need for a risk management tool which will meet the needs of growers currently excluded from coverage under the nursery crop policy, in particular, cut flower and foliage producers. Finally, I will briefly touch on the need to provide quarantine protection for U.S. growers, including growers of floral and nursery crops.

## I. THE NURSERY CROP POLICY

The current nursery crop policy is, fundamentally, a workable policy -- but it is extraordinarily complex and requires an extraordinarily knowledgeable and talented crop insurance agent to advise the grower on what, exactly, he is purchasing for the various options available.

Following are some of the aspects of the policy which are particularly problematic, the complexity of which is probably discouraging growers from participating.

- **One of the most important drawbacks of the complexity of this program is that agents (and their companies) are exposed to "errors and omissions" lawsuit**s, if a grower feels that he did not adequately understand what was covered (or not covered) by the policy he purchased, or if an agent makes an error or is inexperienced in the policy complexities. If the agent makes an error, then the very large dollar value of one of these policies could easily exceed the agent's and/or the company's "errors and omissions" coverage, with a severe adverse impact upon the financial health of the insurance company itself. *Lawsuits are submitted to binding arbitration, rather than being appealable to Federal court*. This is a serious defect in the program, and should be remedied. Insurers will, logically, be unwilling to put their companies at risk to administer a policy which is so

complex that misunderstandings are almost certain to result, with negative financial consequences for the company, the agent, and the grower.

- **The existing nursery crop policy was designed originally for woody ornamentals (trees and shrubs) and was subsequently expanded to cover different types of plant material, including some plants grown in greenhouses.** As a result, different kinds of growing practices and conditions are all joined together without regard to important differences among them (e.g., is the plant grown in the ground? Or in a container? Is it grown in a greenhouse? or a poly-covered structure? Or outside? Is it an annual? Or a tree, requiring many years to get to a saleable size?)

- ***No p*lants are covered that are grown in less than 3" containers**. This requirement means that many bedding plants are excluded -- those grown in "cell packs" for example.

- **Propagative material (such as cuttings or plugs) is not covered**. Coverage for propagative material should be considered, *although not necessarily as part of the nursery policy.*

- **NO cut flowers or cut foliage are covered. NO "stock plants" are covered.** This limitation is more thoroughly discussed in the next section. However, it is a serious drawback, for example, for cut rose growers that they cannot purchase crop insurance *either* for the cut roses which are taken from their stock plants -- OR for the stock plants themselves. Rose bushes are insurable only if sold as a "container, garden rose" or if dug up and sold as a garden rose bush.

- **Coverage:** A grower can buy coverage for a plant in his county ONLY if that plant is LISTED for that specific county. RMA contracted for the development of a very detailed county-plant coverage list -- which is downloadable from the Internet or available on CD-ROM. The printout of that list runs from 500-600 pages or more, *per region* -- and it is very difficult for a grower, or even an agent, to look through and understand. For a large nursery or greenhouse, growing a thousand different plants, the process becomes extremely onerous. For example, if you are a grower in Cheyenne County, Nebraska, and want to grow poinsettias -- even in a fully heated and protected greenhouse -- you cannot buy coverage for those poinsettias unless they are a listed, and priced, crop for that particular county. The further north in the U.S., the more difficult it becomes to purchase coverage for certain kinds of plants (for example, tropical plants), *even when* they are going to be grown in a fully heated and environmentally controlled greenhouse.

- **Pricing.** Pricing of plants, also set by the government's list, is neither diverse enough nor adequate to reflect regional differences and "real-world" pricing. A grower receives coverage based upon the LOWER of his ACTUAL sales price or the government-listed price. For example, a grower might have a huge, 100-gallon palm tree, designed for high-end interiorscaping. However, the maximum size covered by the government's price list 65 gallons, so that is the maximum coverage the grower can buy -- even though his actual plant is worth much more.

- **Determining the value of his coverage -- and, of course, the grower should do that to use the policy as a good financial risk management tool -- is a very, very complex process.** It requires checking back and forth with the official price and availability CD-ROM list. In addition, many growers will turn over three or four, at a minimum, crops in any given year. A grower might start out with geraniums, then move on to impatiens or a mix of summer crops, then grow and sell chrysanthemums, and finally end up with a poinsettia

crop. Some of those could be overlapping in the greenhouses at various times of the year. This process is all complicated by having to refer to the "government's price" rather than just using the grower's actual prices. A grower can purchase an endorsement, which allows him to select two "high value" peaks during the year -- perhaps at the spring season and in the fall, for his anticipated busiest times of year -- but this still does not solve the problem of using the policy as a good risk management tool.

In the alternative, of course, the grower could take a "stab in the dark" at guessing the value of his inventory and deciding what coverage he wants to buy. However, this could lead either to being underinsured or overinsured -- and there can be penalties for either. At the time of loss, the grower might be asked to provide a detailed inventory of what was in his nursery just prior to the loss. If he has $2 million of inventory but estimated $5 million, he could enter the realm of "fraud, waste and abuse." If he under-reported by 20 percent, then rather than being paid at a 100 percent price level, he would get only 80 cents on the dollar.

- **There is no distinction, as mentioned several times above, between plants grown indoors or outdoors.** It would seem more logical for the rates and coverage to reflect the different levels of risk posed by those situations.

- **Various coverage levels are available**: For a $100 administrative fee, a grower can buy a "catastrophic" policy -- which would give him 50% coverage level and pay 55 cents on the dollar -- or, calculated out, 27-1/2 percent coverage. Every grower in the United States should probably, at a minimum, have this policy -- because for very little money, it does provide some level of coverage, so long as the plants are "on the list." Various buy-up levels of coverage are available, as well, which an agent and grower can analyze and compare, with a considerable amount of effort, to form a reasonable risk management tool for the grower. **However, as discussed above, determining an accurate value is extremely laborious, and the help of a well-qualified, experienced and knowledgeable agent is absolutely essential.** Various combinations of buy-up coverage (ranging from 55 percent coverage/100 percent price to almost any other combination) are available. As an example, with a 75/100 policy on a $1 million crop, would mean that you had $750,000 of inventory covered at 100 percent of the price (remember -- the lower of the federally established price or the actual price -- or, in other words, a $250,000 deductible). That deductible is an annual aggregate, so if you had one $250,000 loss in October and then another in January, the policy would pay on the second loss.

- **The pricing and county-crop-list system appears to be based upon the "Hardiness Zone" system, with, in some cases, "heating requirements" added. However, it does NOT reflect whether a crop is actually grown in a fully protected, greenhouse environment.** While a crop like "petunias" or "ferns" may be on the list for counties in the southern U.S. -- the same crop may NOT be on the list for a county in the northern part of the U.S. -- even if it were grown in a fully heated glass greenhouse in that northern state. A grower can petition to add plants to the list if he purchases a buy-up (not a catastrophic) policy -- but it takes at least two to three months to get it approved. And RMA will not accept a request if it involves changing a "hardiness zone" -- even if the request is to grow the plant indoors in an environmentally controlled greenhouse.

  Let me give an example. Dade, Broward, and Palm Beach Counties, Florida, are all in Hardiness Zone 10. However, Martin County, Florida, just north of Palm Beach, is located in Hardiness Zone 9. Lots of nurseries are moving north in Florida, as the population in the Miami area expands, and the growers, of course, are growing exactly the same plants. But if a grower has moved his nursery from Palm Beach County (in Zone 10) to adjoining Martin

County (in Zone 9), he can no longer insure those same plants -- *even by submitting a special request to have them approved*, because the "Hardiness Zone Line" has been crossed. So a *Spathiphyllum* grower who moved his nursery from Palm Beach to Martin County would not be able to insure that plant any more -- even by special request.

- **Rates** are based upon the county -- e.g., they are the same, whether the crop is grown in a million dollar, computerized greenhouse or outside in an open field, All plants of one type in a given county (*if* they are insurable in that county) are insured at the same rate -- be they grown indoors, outdoors, or somewhere in between.

In summary, the unwieldy complexity of the nursery crops policy makes it very difficult for growers to use as a true risk management tool. RMA has made a commendable effort to address the needs of a very complex industry. However, many improvements are needed. We will be happy to work with RMA and the insurance industry to address the points we have mentioned above.

We would also encourage the creation of alternative types of policies, which are not designed on the traditional "multi-peril crop insurance" paradigm, but which, in fact, could be used by our industry as a true risk management tool.

I would now like to return to the second major point of this testimony, which is that no coverage is available to cut flower and foliage producers -- a significant portion of the floriculture and nursery industry.

## II. NO COVERAGE AVAILABLE TO CUT FLOWER AND CUT FOLIAGE PRODUCERS

From the point of view of producers clearly not covered under the Nursery Crop Policy, the most serious gap in coverage for our industry is the lack of coverage for cut flowers and cut foliage. Cut flowers and cut foliage make up a significant part of the floriculture industry, at about $520 million per year farmgate value (USDA-NASS).

Because some cut flowers are produced in greenhouses, private insurance is available for certain perils, for growers of these crops. However, a more comprehensive program, which could easily be designed not to compete with any privately available insurance, since the perils covered by private insurance are limited, could be useful to growers.

Field growers of cut flowers and foliage, another significant portion of the industry, are totally excluded both from federal and from private coverage.

As noted above, we are extremely concerned that, despite a promising beginning, the study initiated by RMA for a cut-flower and foliage program appears to have stalled.

One possibility, although we would not recommend it without seeing what other kinds of coverage paradigms might also be worked out, would be the "Adjusted Gross Revenue "AGR"-type policy. The benefits of the AGR, both from the administrative and the grower point of view, are that it is an income-based program. As such, it relies upon tax return information provided by the grower. It does not attempt to substitute government pricing criteria for market-driven prices, which are changeable and diverse. It simply provides a minimum guarantee for growers, in case of some defined level of loss, which will help them stay in business. On its face, it would seem to accommodate the vast variety of crops and growing situations and climates which exist within the cut flower and foliage industry. However, as noted above, we would be happy to work with RMA and the insurance industry to see what other kinds of workable programs might be developed.

Finally, the third major point of this testimony addresses the lack of quarantine protection for U.S. growers, including floral and nursery growers.

## III. QUARANTINE PROTECTION

The environmental horticulture industry is uniquely vulnerable to the ravages of invasive plant pests introduced from abroad. Virtually every introduced pest may find a home and suitable plant hosts somewhere in the U.S. and among the literally thousands of species and varieties grown commercially in nurseries and greenhouses. Once established, such pests disrupt the industry by causing direct crop damage, and spurring imposition of quarantines, inspection and certification requirements to slow further pest spread. For the purposes of clarity, references to plant pests in this testimony are intended to include all types of pests such as insects, pathogens, and weeds.

This year, the geranium industry suffered severe losses due to a quarantine imposed by the USDA. These grower losses were incurred due to no fault of their own. Some of them were, in fact, covered by the Federal crop policy -- but only because the disease involved is one for which "no control or cure is available" -- and coverage was available only to a limited extent.

**We believe that "quarantine" should be listed as a named peril on federal crop insurance policies**. There is a great need to explore coverage for crops that fall within a quarantine zone -- particularly if those goods are rendered unsalable or ordered destroyed, but also even when sales value is reduced due to the quarantine restrictions. Quarantines are sometimes imposed while the study and assessment of infestation and risk are being completed. The short shelf-life of floral and nursery products, and the short sales seasons, pose unanticipated hardships when coupled with these kinds of quarantine situations. Those hardships are outside the control of the growers -- just as are rain and hail for growers of corn, wheat and soybeans. Yet growers in our industry are without recourse, to respond to situations in which they are caught through no fault of their own.

A few examples include:

--*Ralstonia*, a bacterial disease of geraniums and other crops, affecting growers nationwide
--Emerald Ash Borer, impacting growers in southeast Michigan and in Ohio
--Sudden Oak Death, affecting growers of many crops, in counties in central and northern California, and limited areas in Oregon -- to date.
--Plum Pox, in central Pennsylvania
--Citrus Canker, in Florida

It is imperative that USDA, whether it be APHIS, RMA, or some not-yet-devised effort, reach out to help protect growers against these unforeseen and unforeseeable, yet economically devastating, losses. Again, we are willing, and in fact eager, to work with USDA on this problem.

## Conclusion

In closing, we very much appreciate the opportunity to represent our industry before this important hearing. The floral and nursery is a huge, and growing, segment of U.S. agriculture -- yet our needs are diverse and divergent from those of traditional row-crop producers, in many ways. We look forward to the opportunity to continue working with Congress, and with the Administration, on this very important issue.

## CURRICULUM VITAE FOR LIN L. SCHMALE

### PROFESSIONAL EXPERIENCE

Senior Director of Government Relations, Society of American Florists,
Washington, D.C.
March, 2000 – Present

Senior Legislative Representative, Society of American Florists,
Washington, D.C.
March, 1994 – March, 2000

Legislative Assistant, Congressman Jay Dickey (R-4-Arkansas)
May, 1993 – March, 1994

Constituent Relations Director, Federal Crop Insurance Corporation
(now Risk Management Agency), U.S. Department of Agriculture
February, 1991 – January, 1993

Deputy Director for External Affairs
U.S. Department of the Interior, Office of the Secretary
March, 1989 – October, 1990

Special Assistant to the Assistant Secretary for Land and Minerals Management
U.S. Department of the Interior
February, 1984 – March, 1989

Chief, Office of Congressional Liaison, Bureau of Mines
U.S. Department of the Interior
February, 1983 – February, 1984

Government Relations Director for Public Lands and Government Research
Atlantic Richfield Company – Anaconda Minerals
Denver, Colorado
March, 1979 – December, 1982

### EDUCATION

B.S., Business Administration, Regis College, Denver, Colorado

### APPOINTMENTS AND AWARDS

Minor Crop Farmer Alliance, Technical Committee member, 1997-present

North America Plant Protection Organization, U.S. Industry Advisory Group, member of the nursery and greenhouse committee, 1998 – present

Special Award in Recognition of Outstanding Service and Support for the Floriculture and Nursery Research Initiative – U.S. Department of Agriculture, Agricultural Research Service, March, 2000